

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name RESORT TOWNSHIP	County EMMET
Fiscal Year End 3/31/06	Opinion Date 6/9/06	Date Audit Report Submitted to State 8/15/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

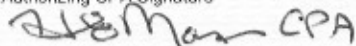
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) MASON & KAMMERMAN, P.C.	Telephone Number 231-547-4911		
Street Address 110 PARK AVENUE	City CHARLEVOIX	State MI	Zip 49720
Authorizing CPA Signature  CPA	Printed Name HUGH E. MASON	License Number 1101008161	

RESORT TOWNSHIP
EMMET COUNTY, MICHIGAN

FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
for the year ended March 31, 2006

Resort Township

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MASON & KAMMERMANN, P.C.
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INDEPENDENT AUDITOR'S REPORT

June 9, 2006

Members of the Township Board
Resort Township
Petoskey, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Resort Township of Petoskey, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Resort Township as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mason & Kammermann, P.C.
Certified Public Accountants

Resort Township

Management Discussion & Analysis

June 9, 2006

This section of Resort Township's annual financial report presents our discussion and analysis of the financial performance of the Township during the fiscal year ended March 31, 2006.

Overview of the Financial Statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. These financial statements are formatted to comply with Governmental Accounting Standards Board Statement 34 (GASB 34). Resort Township's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and the notes to the financial statements. Additionally, this report also contains other supplementary information to the basic financial statements.

Government-wide Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets and the Statement of Activities includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The Statement of Net Assets presents information on all of Resort Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increase or decreases in net assets may serve as a useful indicator of whether the financial position of Resort Township is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year, on the modified accrual basis of accounting.

Fund Financial Statements

The fund financial statements provide information separated into related areas to demonstrate how resources have been allocated for specific activities or functions. Resort Township, like other governmental entities, uses fund accounting to ensure compliance with the requirements of accounting standards and laws. Resort Township uses two categories of funds, which are governmental and fiduciary funds.

Resort Township

Management Discussion & Analysis June 9, 2006

Governmental funds

Governmental funds are used to account for essentially the same functions as reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Resort Township maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Fire Fund and Public Improvements Fund, which are considered to be major funds.

The Township adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and other major funds to demonstrate compliance with this budget.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Township's own programs.

Resort Township

Management Discussion & Analysis June 9, 2006

Financial Analysis of the Township as a Whole

The table below summarizes the Township's net assets as of March 31, 2006:

Net Assets March 31, 2006	
	Governmental Activities
Assets	
Current Assets	\$ 2,585,254
Capital Assets, net acc. depreciation	1,028,702
Total Assets	3,613,956
Liabilities	
Accounts Payable	17,306
Net Assets	
Invested in Capital Assets	1,028,702
Restricted	738,345
Unrestricted	1,829,603
Total Net Assets	\$ 3,596,650

The total net assets of the Township's are \$3,596,650. Net assets totaling \$738,345 are restricted for capital improvements, fire safety and inventory. The township has \$1,829,603 of unrestricted net assets, which could be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Resort Township

Management Discussion & Analysis June 9, 2006

The following table shows how activities affected changes in net assets during the fiscal year.

Changes in Net Assets For Year Ended March 31, 2006

	Governmental Activities
Revenues:	
Program Revenues	
Charges for Services	\$ 11,955
General Revenues:	
Property Taxes	216,424
State Shared Revenues	178,563
Act 425	646,186
Interest	43,622
Other	<u>5,679</u>
Total Revenues	1,102,429
Expenses:	
Legislative	117,081
General Government	136,572
Community & Economic Development	59,427
Public Safety	88,836
Public Works	563,242
Recreation and Cultural	<u>69,715</u>
Total Expenses	<u>1,034,873</u>
Change in Net Assets	<u><u>\$ 67,556</u></u>

Revenue sources and changes

Total revenue from all sources totaled \$1,102,429 for governmental activities. This revenue consists mainly of \$646,186 (59%) Act 425 revenue from their agreement with the City of Petoskey, \$216,424 (20%) from property tax collection and \$178,563 (16%) from state revenue sharing. The millage rate for general operations was .5000 and .4803 for the fire department.

Resort Township

Management Discussion & Analysis

June 9, 2006

Expenses

Using a full accrual basis of accounting, the Township spent \$1,034,873 on governmental activities. This equates to 54% on public works, 13% on general government, 11% on legislative activities, 9% public safety, 7% on culture and recreation and 6% on community and economic development.

Financial Analysis of the Township's Funds

At March 31, 2006, the Township's governmental funds reported a combined cash balance of \$2,059,676, which is approximately \$195,302 less than last year.

Expenditures in the General Fund exceeded revenues by \$217,814, which was primarily due to investment in capital outlay.

The Fire Fund had a \$17,979 increase in its fund balances this year. This was due to collecting more tax revenue than anticipated in the expected budget amount.

The Public Improvement Fund increased by \$15,501 due to interest earned on certificates of deposit.

Capital Assets

At fiscal year ended March 31, 2005, the Township had \$776,812 of capital assets, net of accumulated depreciation. During the year, the Township invested \$254,148 in land and \$13,679 in equipment.

Capital assets include all purchases of assets that exceed \$1,000. Capital assets include: land and land improvements, building and building improvements, equipment and furniture. The Township uses straight-line depreciation for all depreciable assets.

Long-Term Debt

The Township had no outstanding long-term debt as of the year-end March 31, 2006.

Resort Township

Management Discussion & Analysis June 9, 2006

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state-shared revenues.

Requests for Information

This financial report is designed to provide a general overview of Resort Township's finances for all of those with an interest in the township's finances. If you have questions concerning this report or requests for any additional financial information, please contact Resort Township, 2232 Resort Pike Road, Petoskey, MI 49770.

Resort Township

Statement of Net Assets March 31, 2006

	Governmental Activities
<u>Assets</u>	
Current Assets	
Cash	\$ 2,059,676
Certificates of Deposit	506,341
Inventory - Books	6,772
Due From Other Funds	535
Taxes Receivable	<u>11,930</u>
Total Current Assets	2,585,254
Noncurrent Assets	
Capital Assets	1,339,016
Less: Accumulated Depreciation	<u>(310,314)</u>
Total Noncurrent Assets	<u>1,028,702</u>
Total Assets	<u>3,613,956</u>
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts Payable	17,306
Net Assets	
Invested in Capital Assets	1,028,702
Restricted	738,345
Unrestricted	<u>1,829,603</u>
Total Net Assets	<u>\$ 3,596,650</u>

The accompanying notes are a part of the financial statements.

Resort Township

Statement of Activities For Year Ended March 31, 2006

		Program Revenues			Net Revenue (Expense) and Change in Net Assets
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Total
Governmental Activities					
Legislative	\$ 117,081	\$ 97	\$ -	\$ -	\$ (116,984)
General Government	136,572	-	-	-	(136,572)
Community & Economic Development	59,427	11,858	-	-	(47,569)
Public Safety	88,836	-	-	-	(88,836)
Public Works	563,242	-	-	-	(563,242)
Recreation and Cultural	69,715	-	-	-	(69,715)
Total Government Activities	<u>\$ 1,034,873</u>	<u>\$ 11,955</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,022,918)</u>
General Revenues:					
Taxes:					
Property Taxes					216,424
State Shared Revenues					178,563
Act 425					646,186
Interest					43,622
Other					5,679
Total General Revenues					<u>1,090,474</u>
Change in Net Assets					67,556
Net Assets - April 1, 2005					<u>3,529,094</u>
Net Assets - March 31, 2006					<u>\$ 3,596,650</u>

The accompanying notes are a part of the financial statements.

Resort Township

Governmental Funds Balance Sheet March 31, 2006

<u>Assets</u>	<u>General</u>	<u>Fire</u>	<u>Capital Improvement</u>	<u>Total</u>
Cash	\$ 1,837,122	\$ 222,554	\$ -	\$ 2,059,676
Certificates of Deposit	-	-	506,341	506,341
Inventory - Books	6,772	-	-	6,772
Due from Other Funds	535	-	-	535
Taxes Receivable	6,085	5,845	-	11,930
Total Assets	<u>\$ 1,850,514</u>	<u>\$ 228,399</u>	<u>\$ 506,341</u>	<u>\$ 2,585,254</u>
 <u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts Payable	\$ 14,139	\$ 3,167	\$ -	\$ 17,306
Fund Equity:				
Fund Balance - Undesignated	1,829,603	-	-	1,829,603
Fund Balance - Designated	6,772	225,232	506,341	738,345
Total Fund Balance	<u>1,836,375</u>	<u>225,232</u>	<u>506,341</u>	<u>2,567,948</u>
Total Liabilities & Fund Equity	<u>\$ 1,850,514</u>	<u>\$ 228,399</u>	<u>\$ 506,341</u>	<u>\$ 2,585,254</u>

The accompanying notes are a part of the financial statements.

Resort Township

Governmental Funds Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets March 31, 2006

Total Fund Balances - Governmental Funds	\$ 2,567,948
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Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds
balance sheet.

Cost of capital assets	1,339,016
Accumulated depreciation	<u>(310,314)</u>

Total Net Assets - Governmental Activities	<u><u>\$ 3,596,650</u></u>
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The accompanying notes are a part of the financial statements.

Resort Township

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances For Year Ended March 31, 2006

	General	Fire	Capital Improvement	Total
Revenues:				
Taxes	\$ 112,796	\$ 103,628	\$ -	\$ 216,424
Act 425	646,186	-	-	646,186
State Shared Revenue	178,563	-	-	178,563
Licenses & Permits	11,858	-	-	11,858
Charges for Service	97	-	-	97
Interest	28,121	-	15,501	43,622
Other	5,679	-	-	5,679
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	983,300	103,628	15,501	1,102,429
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures:				
Current:				
Legislative	117,081	-	-	117,081
General Government	130,835	-	-	130,835
Community & Economic Development	59,427	-	-	59,427
Public Safety	-	85,649	-	85,649
Public Works	563,242	-	-	563,242
Recreation and Cultural	62,702	-	-	62,702
Capital Outlay	267,827	-	-	267,827
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	1,201,114	85,649	-	1,286,763
	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	(217,814)	17,979	15,501	(184,334)
Fund Balances - April 1, 2005	<hr/> 2,054,189	<hr/> 207,253	<hr/> 490,840	<hr/> 2,752,282
Fund Balances - March 31, 2006	<hr/> <u>\$ 1,836,375</u>	<hr/> <u>\$ 225,232</u>	<hr/> <u>\$ 506,341</u>	<hr/> <u>\$ 2,567,948</u>

The accompanying notes are a part of the financial statements.

Resort Township

Governmental Funds Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For Year Ended March 31, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (184,334)
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital outlays are reported in governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives	267,827
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Depreciation expense is recorded in the statement of activities but not the governmental fund financial statements	<u>(15,937)</u>
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Changes in Net Assets - Governmental Activities	<u><u>\$ 67,556</u></u>
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The accompanying notes are a part of the financial statements.

Resort Township

Fiduciary Fund Statement of Net Assets March 31, 2006

Assets

Cash

\$ 535

Liabilities

Due to Other Funds

\$ 535

The accompanying notes are a part of the financial statements.

Resort Township

Fiduciary Fund Statement of Changes in Fiduciary Net Assets For Year Ended March 31, 2006

Additions:

Property Tax Collections for Primary Government	\$ 200,111
Property Tax Collections for Other Governments	<u>6,187,724</u>
Total Additions	<u>6,387,835</u>

Deductions:

Property Tax Distributions to Primary Government	199,576
Property Tax Distributions to Other Governments	<u>6,187,724</u>
Total Distributions	<u>6,387,300</u>

Change in Net Assets	535
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Fiduciary Net Assets - April 1, 2005	<u>-</u>
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Fiduciary Net Assets - March 31, 2006	<u><u>\$ 535</u></u>
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The accompanying notes are a part of the financial statements.

Resort Township

Notes To Financial Statements For Year Ended March 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Resort Township (Township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Resort Township.

A. Reporting Entity

The Township operates under a Board-Supervisor form of government and provides the following services: public safety (fire), public improvements, planning and zoning, and general administrative services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, these financial statements present the Local Unit (primary government). The criteria established by the GASB statements for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on these criteria, the Township has no component units.

Joint Operation

The Resort-Bear Creek Fire Department provides fire protection services to the Township. The Fire Department is a joint venture between Bear Creek Township and Resort Township. Resort Township has a pro rata share of 30 percent of operating expenditures and 50 percent of capital expenditures. The Township does not have oversight responsibility for the Resort-Bear Creek Fire Department. The Fire Department's financial statements are blended as part of Bear Creek's financial statements and may be obtained at Bear Creek Township, 373 N. Division Rd., Petoskey, Michigan 49770

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Resort Township

Notes To Financial Statements For Year Ended March 31, 2006

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Resort Township

Notes To Financial Statements For Year Ended March 31, 2006

General Fund – The General Fund is the general operating fund of the Township. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

Special Revenue Fund – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. Included under this classification are the Public Improvement and Fire Funds.

Agency Fund – The Agency Fund is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Cash is comprised of the amount of funds in bank accounts.

Investments consisting of certificates of deposit are stated at cost or amortized cost, which approximates market.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”.

Inventories

Inventories are stated at cost. Inventory recorded in the General Fund consists of Resort Township history books. Disbursements for inventory-type items are recorded as expenditures in the General Fund at the time of sale.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if

Resort Township

Notes To Financial Statements For Year Ended March 31, 2006

purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Equipment	5 years
Land Improvements	20 years
Building Improvements	25 years

Long-term Obligations

As of March 31, 2006, the Township has no outstanding long-term debt.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The Township used estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were assumed in preparing the financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.

Resort Township

Notes To Financial Statements For Year Ended March 31, 2006

2. Public hearing is conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance prior to April 1.
4. The budget is adopted at the total fund level on a basis consistent with generally accepted accounting principles. Budget amounts are as originally adopted, or as amended by the Township Board during the year.
5. Appropriations expire at the end of the fiscal year.

Excess of Expenditures over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.) provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Resort Township's budgeted and actual expenditures for the funds budgeted have been shown on a function basis.

During the year, the Township incurred expenditures in the General and Fire Fund in excess of the amounts appropriated, as follows:

Fund/Function	Original Budget	Final Budget	Actual	Variance
General Fund:				
Building & Grounds	\$ 20,000	\$ 20,000	\$ 27,874	\$ 7,874
Capital Outlay	100,000	254,148	267,827	13,679
Fire Fund:				
Operating Expense	80,000	80,000	85,649	5,649

Accumulated Fund Deficits

The Resort Township had no funds with an accumulated fund balance/retained earnings deficit at March 31, 2006.

Resort Township

Notes To Financial Statements For Year Ended March 31, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Cash in banks – At March 31, 2006 the carrying amount of the Township's deposits was \$2,059,676.

Investments – The carrying amount of the Township's investments as March 31, 2006 consisted of certificates of deposit totaling \$506,341.

The nature of the investment funds does not allow for risk categorization, which is in accordance with GASB Statement No. 3.

Federal Depository Insurance – Of the above balances, \$537,487 was covered by federal depository insurance and U.S. Government guarantees. The remaining \$2,028,530 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form to be taken for the deposit of public funds. The township may experience significant fluctuations in deposit balances during the year.

NOTE 4 – PROPERTY TAXES

Property taxes attach as an enforceable lien (due and payable) on property upon levy. Taxes are levied in December and are payable from December through February 28. The Township bills and collects its own property taxes, as well as taxes for other governmental units. Collections of the other governmental units' taxes and remittances of them to the units are accounted for in the Agency Fund. Property tax revenues are recognized when levied.

Resort Township

Notes To Financial Statements For Year Ended March 31, 2006

The Township is permitted by state law, subject to State Headlee and Truth-in-Taxation provision, to levy taxes up to \$1.00 per \$1,000 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and unlimited amounts for payment of principal and interest on general obligation long-term debt.

The tax rates for the year ended March 31, 2006 were as follows:

<u>PURPOSE</u>	<u>RATE/ ASSESSED VALUATION</u>
Operations:	
General governmental operations	.5000 per \$1000
Fire protection	.4803 per \$1000

NOTE 5 – ACT 425 AGREEMENT

The Township entered into a Public Act 425 agreement with the City of Petoskey in 1994. Under the terms of the agreement the Township conditionally transferred an economic development project to the City. The City will provide all municipal services to the project area, except planning and zoning which will continue to be administered by the Township. In exchange for the transfer the City will share with the Township, tax revenues levied in the district. For the year ended March 31, 2006 the Township received \$646,186 in shared tax revenues.

NOTE 6 – CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<u>Balance of April 1, 2005</u>	<u>Additions</u>	<u>Disposal</u>	<u>Balance of March 31, 2006</u>
Capital assets not being depreciated				
Land	\$ 469,187	\$ 254,148	\$ -	\$ 723,335
Capital assets being depreciated				
Buildings	496,193	-	-	496,193
Equipment and furniture	105,809	13,679	-	119,488
Total capital assets being depreciated	602,002	13,679	-	615,681
Less: accumulated depreciation	(294,377)	(15,937)	-	(310,314)
Total capital assets	<u>\$ 776,812</u>	<u>\$ 251,890</u>	<u>\$ -</u>	<u>\$ 1,028,702</u>

Resort Township

Notes To Financial Statements For Year Ended March 31, 2006

Depreciation expense was charged to the Township's functions as follows:

General Government	\$	5,737
Public Safety		3,187
Recreation		<u>7,013</u>
	\$	<u>15,937</u>

NOTE 7 – FUND EQUITY RESERVATIONS AND DESIGNATIONS

The General Fund balance includes \$6,772 designated for inventory.

The Fire Fund has \$225,232 restricted for public safety.

The Public Improvements Fund has \$506,341 designated for public improvements and major equipment expenditures.

NOTE 8 – RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; error and omissions; injuries to employees and natural disasters.

The Township belongs to the Michigan Township Participating Plan, which currently operates as a common risk management and insurance program for various municipalities throughout the state. The Township pays an annual premium for its general insurance and workman's compensation coverage. The Plan is self-sustaining through member premiums and 100% reinsures through commercial companies.

Resort Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Taxes:				
Property Tax	\$ 182,000	\$ 182,000	\$ 112,796	\$ (69,204)
425 Tax Revenue	625,000	625,000	646,186	21,186
State Revenues:				
State Shared Revenues	150,000	150,000	178,563	28,563
Charges for Services	200	200	97	(103)
Licenses and Permits	11,500	11,500	11,858	358
Interest	10,000	10,000	28,121	18,121
Other	2,000	2,000	5,679	3,679
Total Revenues	<u>980,700</u>	<u>980,700</u>	<u>983,300</u>	<u>2,600</u>
Expenditures:				
Legislative				
Township Board				
Salaries			11,740	
Fees & Per Diem			3,634	
Office Supplies			3,306	
Printing & Postage			2,735	
Professional Services			51,791	
Contracted Services			17,231	
Legal Notices			3,526	
Utilities			1,140	
Education and Training			760	
Insurance and Unemployment			19,987	
Other Expenses			1,231	
Total Legislative	<u>135,000</u>	<u>135,000</u>	<u>117,081</u>	<u>(17,919)</u>
General Government				
Township Supervisor				
Salaries & Wages			16,488	
Clerical			916	
Office Supplies			1,030	
Other Expenses			112	
Total Township Supervisor	<u>25,000</u>	<u>25,000</u>	<u>18,546</u>	<u>(6,454)</u>

Resort Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Elections				
Wages & Fees			1,890	
Supplies			83	
Other Expenses			214	
Total Elections	<u>3,000</u>	<u>3,000</u>	<u>2,187</u>	<u>(813)</u>
Township Assessor				
Salaries & Wages			24,355	
Fees & Per Diem			511	
Professional Services			420	
Supplies			1,482	
Total Township Assessor	<u>27,000</u>	<u>27,000</u>	<u>26,768</u>	<u>(232)</u>
Township Clerk				
Salary, Clerk			18,173	
Wages, Deputy Clerk			2,246	
Supplies			2,378	
Other Expenses			846	
Total Township Clerk	<u>26,000</u>	<u>26,000</u>	<u>23,643</u>	<u>(2,357)</u>
Township Board of Review				
Fees & Per Diem			2,482	
Legal Notices			707	
Education & Training			309	
Other Expenses			120	
Total Board of Review	<u>4,500</u>	<u>4,500</u>	<u>3,618</u>	<u>(882)</u>
Township Treasurer				
Salary, Treasurer			19,236	
Wages, Deputy Treasurer			2,460	
Supplies			1,416	
Printing & Postage			4,031	
Professional Services			769	
Other Expenses			287	
Total Township Treasurer	<u>30,800</u>	<u>30,800</u>	<u>28,199</u>	<u>(2,601)</u>

Resort Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Building and Grounds				
Wages			2,295	
Supplies			1,318	
Professional Services			4,010	
Contracted Services			5,025	
Utilities			6,604	
Equipment Repair			2,092	
Other Expenses			6,530	
Total Building & Grounds	<u>20,000</u>	<u>20,000</u>	<u>27,874</u>	<u>7,874</u>
Total General Government	<u>136,300</u>	<u>136,300</u>	<u>130,835</u>	<u>(5,465)</u>
Community & Economic Development				
Planning & Zoning				
Salary			23,527	
Fees & Per Diem			8,696	
Supplies			1,949	
Legal Notices			1,385	
Contracted Services			20,254	
Professional Services			2,182	
Education and Training			1,434	
Total Community & Economic Development	<u>80,000</u>	<u>80,000</u>	<u>59,427</u>	<u>(20,573)</u>
Public Works				
Fees & Per Diem			3,824	
Professional Services			110	
Legal Notices			608	
Street Lighting	2,500	4,000	1,735	
Road Improvements	600,000	600,000	498,439	
Spring Cleanup			16,327	
Recycle Program	45,000	45,000	42,199	
Total Public Works	<u>647,500</u>	<u>649,000</u>	<u>563,242</u>	<u>(85,758)</u>

Resort Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Recreation and Culture				
Recreation Program	19,000	19,000	30,729	
Library	3,000	3,000	2,080	
Township Parks:	45,000	45,000		
Contracted Services			13,189	
Supplies			2,611	
Professional Services			12,833	
Utilities			1,260	
Total Recreation & Culture	<u>67,000</u>	<u>67,000</u>	<u>62,702</u>	<u>(4,298)</u>
Capital Outlay	<u>100,000</u>	<u>254,148</u>	<u>267,827</u>	<u>13,679</u>
Total Expenditures	<u>1,165,800</u>	<u>1,321,448</u>	<u>1,201,114</u>	<u>(120,334)</u>
Net Change in Fund Balance	<u>(185,100)</u>	<u>(340,748)</u>	<u>(217,814)</u>	<u>122,934</u>
Fund Balance - April 1, 2005	<u>2,054,189</u>	<u>2,054,189</u>	<u>2,054,189</u>	<u>-</u>
Fund Balance - March 31, 2006	<u>\$ 1,869,089</u>	<u>\$ 1,713,441</u>	<u>\$ 1,836,375</u>	<u>\$ 122,934</u>

Resort Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - Fire Fund For Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Taxes				
Property Taxes	\$ 80,000	\$ 80,000	\$ 103,628	\$ 23,628
Expenditures:				
Operating Expense	<u>80,000</u>	<u>80,000</u>	<u>85,649</u>	<u>5,649</u>
Excess Revenues (Expenditures)	-	-	17,979	17,979
Fund Balance - April 1, 2005	<u>207,253</u>	<u>207,253</u>	<u>207,253</u>	<u>-</u>
Fund Balance - March 31, 2006	<u><u>\$ 207,253</u></u>	<u><u>\$ 207,253</u></u>	<u><u>\$ 225,232</u></u>	<u><u>\$ 17,979</u></u>

Resort Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - Public Improvements Fund For Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Interest Income	\$ 5,000	\$ 5,000	\$ 15,501	\$ 10,501
Fund Balance - April 1, 2005	<u>490,840</u>	<u>490,840</u>	<u>490,840</u>	<u>-</u>
Fund Balance - March 31, 2006	<u><u>\$ 495,840</u></u>	<u><u>\$ 495,840</u></u>	<u><u>\$ 506,341</u></u>	<u><u>\$ 10,501</u></u>

Resort Township

Statement of Tax Levy and Collections March 31, 2006

	<u>Millage Rate</u>	<u>Adjusted Levy</u>	<u>Collected</u>	<u>Returned Delinquent</u>
Emmet County	5.9667	\$ 1,287,863	\$ 1,217,984	\$ 69,879
Petoskey Public Schools	21.1600	2,770,364	2,623,164	147,200
Char-Emmet Intermediate School District	2.7022	583,259	550,043	33,216
North Central Michigan College	2.3092	495,432	467,217	28,215
Greenwood Cemetery	0.4700	101,440	95,663	5,777
SET	6.0000	1,295,091	1,234,189	60,902
Township:				
General	0.5000	107,917	101,771	6,146
CFR	-	44	44	-
Fire Fund	0.4803	103,663	97,760	5,903
Total	<u>39.5884</u>	<u>\$ 6,745,073</u>	<u>\$ 6,387,835</u>	<u>\$ 357,238</u>
Percent of Levy Collected	<u>94.70%</u>			

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
VELDA K. KAMMERMANN

110 Park Avenue
Charlevoix, Michigan 49720
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Facsimile (231) 547-5911

August 3, 2006

To the Township Board
Resort Township
Petoskey, Michigan

We have audited the financial statements of Resort Township for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Auditor's Responsibility

We conducted our audit of the financial statements of Resort Township in accordance with auditing standards accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion"

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Significant Accounting Policies

The significant accounting policies are described in Note 1 to the financial statements.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available for review.

Comments and Recommendations Regarding Internal Controls, Compliance and Efficiency

Our procedures disclosed the following conditions that we would like to bring to your attention:

Segregation of Duties

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication effort.

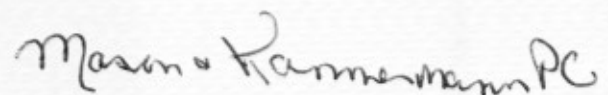
We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

Summary

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Mason & Kammermann PC".

Mason & Kammermann, P.C.
Certified Public Accountants